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AGENDA ITEM 10

TO: MEMBERS OF THE BENEFIT AND PROGRAM ADMINISTRATION COMMITTEE

I. SUBJECT: 1959 Survivor Benefit Program Overview

II. PROGRAM: Actuarial & Employer Services

III. RECOMMENDATION: Information Only

IV. ANALYSIS:

1959 Survivor Benefit Program Overview

I. Executive Summary
II. Details of the Program Design
III. Current Status of Pools

I. Executive Summary

The 1959 Survivor Benefit Program was created to provide a continuing pre-retirement monthly death benefit for eligible survivors of members not covered by social security who die while actively employed. Originally, benefits under the 1959 Survivor Benefit Program were optional for agencies that did not provide social security benefits for all or part of their employees. All agencies with employees not covered by social security, first entering into contracts for participation in CalPERS in 1994 or later, are now required by law to provide one of the 1959 survivor benefits. There are 183 contracting agencies with approximately 18,000 members that are not covered by social security or by the 1959 Survivor Benefit Program and may not have a continuing monthly pre-retirement death benefit for their survivors. It is possible however, that these agencies or individual members may purchase this type of insurance through another source.

Whereas the social security benefit adjusts for inflation, most 1959 survivor benefits are paid in a flat dollar amount. Due to this inherent flaw that resulted in an erosion of purchasing power, three additional levels were added over the years. Each of these additional levels increased the flat benefit payment amounts. Finally in 2000, an Indexed Level was created to provide purchasing power.

Currently, the First, Second, and Third Level of 1959 Survivor Benefit Program are closed to any new contracts or amendments, although new hires for those agencies currently contracting for one of these benefit levels continue to be enrolled. New contracting agencies and those wishing to enhance their 1959 survivor benefits may elect to provide either the Fourth or Indexed Level of 1959 Survivor Benefit Program.

II. Details of the Program Design

1) Contracting for 1959 Survivor Benefits

The ability to contract for a 1959 survivor benefit depends on whether the contracting public agency and its employees are paying into and covered by social security. If a newly contracting entity does not participate in social security or if some of its employees are not covered by social security, the employer is required to provide a 1959 survivor benefit in its contract with CalPERS. Upon contracting for the benefit, individual members may elect to participate in the 1959 Survivor Benefit Program. Members who elect not to enroll at the onset will have a second chance nine months after the contract effective date. Any members joining an agency after the contract effective date must participate in the Program.

2) Eligible Survivors

Eligible survivors include:

- a spouse or domestic partner at least age 60 or 62 depending on the specific 1959 Survivor Benefit Program provision;
- a spouse or domestic partner who has care of an eligible child or children;
- a child or children under age 22 and unmarried including a stepchild or stepchildren living with the member at the time of death;
- a child or children incapacitated because of disability that began before and has continued without interruption after attainment of age 22

If there are no other eligible survivors the benefit is payable to a parent or parents, at least age 60 or 62 depending on the specific 1959 Survivor Benefit Program provision, who were dependent on the deceased member at the time of his/her death for at least one-half of his/her/their support.

3) 1959 Survivor Benefits and Payments

Below is a chart showing all of the 1959 Survivor Benefit Program provisions and the benefit payment amounts. The benefit payment amounts are based on the number of eligible survivor to receive the monthly benefit. For example, if there is only one eligible survivor and the deceased member was covered by the Fourth Level of 1959 survivor benefits, the eligible survivor would receive a monthly benefit of $950.

Each 1959 survivor benefit provision for public agencies has unique payment amounts, while the Fifth Level of 1959 survivor benefits for the State and the Schools have the same payment amounts. All of the 1959 survivor benefits , except the Public Agency Indexed Level, are flat monthly amounts that never increase. The Public Agency Indexed Level Benefit increases each year by 2%, regardless of the actual change in a CPI Index. For example, if a member died in 2000, a single eligible survivor would have begun receiving $500 per month. Each subsequent year, that benefit amount would increase by 2% such that in 2008, the benefit would be about $585 per month.

That same amount, $585 per month, would also apply to the eligible survivor of a member that dies in 2008. Thus, the benefit level increases by 2% per year for current survivors and those that become eligible at some point in the future.

The following matrix for calendar year 2008 displays the benefit levels and payments:

Benefit Levels	Single Survivor Benefit	Two Survivor Benefit	Three Survivor Benefit
PA First	$180	$360	$430
PA Second	225	450	538
PA Third	350	700	840
PA Fourth	950	1,900	2,280
PA Indexed	585	1,172	1,757
State Fifth	750	1,500	1,800
School Fifth	750	1,500	1,800

4.) Payout Periods by Survivor Demographics at Death

Surviving spouse or domestic partner with no children

For the Public Agency First, Second, and Third Level of 1959 survivor benefits, a surviving spouse or domestic partner with no children receives the benefit upon attainment of age 62 unless the contract includes another available provision that allows for the benefit to be payable at age 60. For the Public Agency Fourth and Indexed Level Benefits and for the State and School Fifth Level 1959 survivor benefits, the benefit is payable to the surviving spouse or domestic partner upon attainment of age 60. After attainment of the appropriate age, the benefit is payable for life.

Surviving spouse or domestic partner caring for a child or children

A surviving spouse caring for an unmarried child or children under age 22 will receive the benefit until the child or children reach age 22 or marry, whichever comes first. A spouse caring for a child or children that became incapacitated because of a disability that began before age 22 and has continued without interruption after attainment of age 22 will continue to receive a benefit as long as the child or children remain unmarried and disabled.

Child or Children

A child or children are eligible to receive a benefit as long as they are unmarried and under age 22. A child or children that became incapacitated because of a disability that began before age 22 and has continued without interruption after attainment of age 22 will continue to receive a benefit as long as the child or children remain unmarried and disabled.

Parents only

If there are no other survivors, an eligible parent or parents will receive the 1959 survivor benefit for life provided they were dependent on the deceased member for at least one-half of their support prior to the member's death and are over the age of 60 or 62, depending on the benefit provision.

5) Comparison with Social Security

Unlike the social security pre-retirement death benefit, the 1959 survivor benefit is not salary related. The following matrix shows the typical social security benefit paid based on varying salary levels. These amounts are as of calendar year 2008 and normally receive a cost of living adjustment each year.

Salary	Single Survivor Benefit	Two Survivor Benefit	Three Survivor Benefit
$25,000	$ 693	$1,386	$1,408
50,000	1,078	2,156	2,629
Maximum Benefit*	1,505	3,010	3,512

*Maximum benefit payable regardless of salary level

III. Current Status of Pools

1) Participant Counts

The following table displays the participant count by type and across all levels as of June 30, 2007. Deferred survivors are those spouses or domestic partners whose benefits will commence at the appropriate age (60 or 62). The receiving survivors are those that are currently receiving a 1959 survivor benefit.

Pool	Active	Deferred	Receiving	Total
PA First	8,578	48	93	8,719
PA Second	4,498	30	59	4,587
PA Third	45,373	218	436	46,027
PA Fourth	71,886	254	763	72,903
PA Indexed	9,677	29	76	9,782
State Fifth Level	76,902	279	1,447	78,628
School Fifth Level	10,131	13	147	10,291
Total	227,045	871	3,021	230,937

2) Funding of the Pools

All the pools require both employer and employee contributions to pay for future benefits and any shortfall (unfunded liability) that may exist. These contributions are calculated as a per member-per month premium, but are not necessarily paid that way. Employee contributions are generally paid based on the payroll reporting type (e.g., weekly, bi-weekly, monthly). Employers are billed for the employer share annually. Employee contributions are different across specific levels, are set by statute, and are non-refundable. Employer contributions are actuarially derived and take into account the cost to fund future expected benefit payouts, any unfunded liability, and the level of employee contributions. The following describes the differences in employee contributions across levels.

Public Agency First, Second, Third, and Fourth Level

For these levels, employee contributions are set by statute at $2.00 per member, per month. Given this set amount across levels, employees are receiving different levels of coverage for the same employee premium.

In addition, for the First and Second Level the $2.00 monthly premium more than covers the present value of the expected benefit that will ultimately be paid in the future. In other words, employee contributions for the First and Second Level exceed the expected cost.

Public Agency Indexed Level and State and School

Legislation in 2000 created the new Public Agency Indexed Level and provided for a different level of benefits for the State and

School Pools. Included in this legislation is the provision that when the total monthly premium to fund the benefit (including an amortization of the unfunded liability/surplus) exceeds $4.00, the employer and employee will split that amount. So as long as the total monthly premium for the benefit remains at $4.00 or less, the employee monthly share will be $2.00. Currently, the Public Agency Indexed Level and the School Pool have monthly premiums of $2.90 and $0.00 respectively, so no additional employee contributions are necessary. In the State Pool, as of the 2007 actuarial valuation, the current monthly premium is $10.40. Thus the employee premium is set at $5.20 for the current fiscal year.

3.) Funded Condition

As of June 30, 2007, most pools within the program are very well funded on both a market and actuarial basis. Of course, this situation will change over the next couple years due to recent declines in the capital markets. The following chart shows the funded status for all pools as of the last annual valuation:

Pool	Actuarial Assets	Market Assets	Market Surplus	Market Funded Ratio
PA First	$28,826,324	$34,266,464	$31,771,624	1,373.5%
PA Second	7,525,124	8,907,974	6,959,560	457.2
PA Third	79,781,060	94,214,343	70,719,946	401.0
PA Fourth	138,065,583	163,584,555	59,965,534	157.9
PA Indexed	18,145,744	21,334,352	9,137,633	174.9
State Fifth	110,636,672	130,110,615	(6,723,507)	95.1
School Fifth	53,698,609	63,124,330	51,031,350	522.0

There are several reasons for the over funded nature of most of the pools. The following is a brief explanation:

a) For some pools, the $2.00 member contribution is higher than the expected cost.
b) Prior to the implementation of the current actuarial cost method, the entry age normal method was used. As it turns out, this method collects too high of a proportion of the total cost to fund the benefit too early in a member's career. Thus, investment earnings were being compounded over a period longer than necessary.

c) Many years ago, any new agency joining the program for the first time was required to pay up to 2% of payroll to fund the benefit regardless of the actual cost. We believe this was done as a contingency for bad experience.
d) Favorable investment experience over many years.
e) There will always be members that are required to participate in the program, pay the member monthly premium, yet never receive the benefit in the event of their death. This is because other forms of death benefits may supersede the 1959 survivor benefit or the member simply has no statutory beneficiaries.

The State Pool's funded condition stems mainly from the fact that the benefit increases given in 2000 used up most of the surplus at that time.

V. STRATEGIC PLAN:

This item is not a specific product of the Strategic or Annual Plans but is part of the regular and ongoing workload of the Actuarial & Employer Services Branch.

VI. RESULTS/COSTS:

Not applicable.

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